Virtual Learning Network

V-LRN
VIRTUAL LEARNING NETWORK

International Business Environment

Block-2

Unit – 7

Transnational Corporation

Topics to be Covered

- Introduction
- Definition of TNCs
- Why Firms Become Transnational?
- Features of TNCs
- Theories Explaining Emergence of TNCs in World Economy
- Issues and Controversies
- The Indian Perspectives
- Summary

Introduction

Transnational corporations further accelerate the process of globalization. The growth of international operations is an important part of the process of globalization. The operations of a firm in different countries have given the birth of the transnational corporations. Transnational corporations are engaged in the international operations of the goods and services.

Transnational Companies

- Transnational corporations are defined as an organization that owns productive assets in different countries, and has common strategy formulation and implementation across borders.

- **UNCTAD defines Transnational Corporation** as incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates.

Definition of TNC

A “firm that owns and controls production facilities in two or more countries”

The enterprise that Undertakes FDI or controls income gathering assets in more than one country.

Produces goods or services outside its country of origin, or engages in international production”

TNC

These corporations, together with their host governments, are reorganizing the world economic structures

Balance of political power through a series of intergovernmental trade and investment accords.

TNC

Global companies have invested and are present in many countries.

Transnational companies have a central corporate facility but decision-making, R&D and marketing powers to each individual foreign market.

Multinational companies have investment in other countries, but do not have coordinated product offerings in each country.

International companies are importers and exporters, they have no investment outside of their home country.

WHY FIRMS BECOME TRANSNATIONAL

To protect themselves

To tap the growing world market

Response to increased foreign competition

To reduce costs

To reduce tariff

To take advantage of technological expertise

Features of TNCs

- TNCs are normally very large in size as measured by the value of their total sales.
- TNCs depend to a large extent on their foreign sales.
- TNCs are multi product enterprises something that gives them tremendous market power.
- Strength is their command of technology and innovation.
- Affiliates of the TNCs are responsive to a number of important environmental forces.
- It draws on a common pool of resources including assets, patent trademarks, information and human resources.

Theories Explaining Emergence of TNCS in World Economy

- A number of theories have been developed to understand and explain why an enterprise would like to invest in a foreign country in view of a large number of problems and risks that it could face in an alien environment.

Theories Explaining Emergence of TNCS in World Economy (Cont..)

- Stephen Hymer had given a theory which states that firm operates under imperfect market which affect the activities of internationalizing firm.
- Product Life Cycle Theory was propounded by Raymond Vernon. This theory very often applies to firms dealing with consumer products.
- Many like John H. Dunning, Mark Casson, have attempted to explain the 'Theory of International Resource Allocation' and the theory of 'Market Failure'.

Theories Explaining Emergence of TNCS in World Economy (Cont..)

- **Other concepts**
  - TNC firms to produce abroad also include explanations minimizing tax burden and exchange risks.
  - Tariff Jumping Operations that are to overcome the restrictions imposed by the host country on imports of final products.

- There is no one theory. There could be a large number of explanations for a single firm to go abroad.

ISSUES AND CONTROVERSIES

- The TNCs interest and the interest of host countries specially developing ones conflict with each other.
- The TNCs control high profit oriented consumer sectors..
- In order to protect their market share they take option to restrictive business practices.
- TNCs avoid paying taxes to government of host countries
- The TNCs do not appoint host countries personnel at higher positions.
- The TNCs do not create necessary backward and forward linkages.
- The TNCs are not necessarily very efficient institutions.

The Indian Perspectives

- India had a restrictive foreign direct investment policy till 1990. Even then a large number of TNCs operated in India either through collaboration with Indian enterprises through minority share holdings or through their own subsidiaries. The TNCs even then had dominated many consumer industries.
- Since 1991, the Indian Government has liberalized its Foreign Direct Investment (FDI) policy. Hence, India has emerged as an important market for serious considerations of TNCs operations. The free entry of TNCs is, however, still subject to some concern in Indian industry and political circles.
- Therefore, many of them seeking level playing fields for them. Hence we can conclude that TNCs will increasingly come to India. But their primary pre-occupations, one can predict, would be to exploit the growing domestic market.

Summary

- The TNCs are defined as the companies which have subsidiaries and affiliates in a large number of countries, with a central control and with an objective of global profit maximization.They are multi product and technology intensive companies.
- However, lately , medium sized TNCs have also become important. The TNCs normally dominate the markets of products which they are producing. Their market power emerges from three major aspects: Intra-fin Trade, Transfer Pricing and Promotion and advertisement .Since 1991, the Indian government has also liberalized its FDI policy. Hence India has emerged as an important market for TNCs.

Thank you